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<u>Too Much Spending, Too Much Debt, and Too Few Tax Cuts</u>

Clinton's Last Budget: A Fitting Legacy

President Clinton in releasing his budget for FY 2001, and his last, is simultaneously attempting to fund the liberal platform for the next decade. Gone is any pretense of fiscal responsibility. In its place is a bare-faced grab not only at America's burgeoning budget surplus, but of the resources of America's forthcoming generations. In 1992, former Democrat Senator Paul Tsongas called Clinton, his then-rival for Democratic nomination, a "pander bear" for being willing to "say anything, do anything to get votes." As he nears conclusion of two terms in office, President Clinton has earned another tag: "squander bear."

Notably, President Clinton's last budget proposes *over a trillion dollars in new spending.* As a result, both debt reduction and tax reduction suffer. Despite his presidency coming to an end in 10 months, he seeks to inflict his priorities on the next 10 years. In fact, for this compulsive personality, an additional one trillion in spending in an extra "Clinton decade" is not enough: Clinton would increase the amount of his profligacy by $36.1 trillion and his influence until 2050! He does this by way of an unadulterated gimmick — claiming additional solvency for the Social Security and Medicare trust funds without providing a single additional cent for when the bills come due. The result would leave current American taxpayers with higher federal debt and tax burdens than they deserve and would compound this problem for the taxpayers of the future.

Fortunately, this is Bill Clinton's last budget. America could hardly afford another one.

Overall Numbers

According to the Senate Budget Committee, President Clinton's budget for FY 2001 would increase spending from the current year (FY 2000) level by $1.359 trillion over the next 10 years — 73 percent of the next decade's available surplus. Of that, $1.11 trillion would be in additional discretionary spending (and resulting debt service costs), and $249 billion would be in new entitlement spending.

Nineteen percent, or $350 billion, of the decade's remaining available non-Social Security funds he claims for a transfer to the Social Security and Medicare trust funds. The problem with this out-and-out gimmick is (as explained in greater detail below) that this money would not actually go to the trust fund but merely would be "credited" and so would still remain available for further spending.

Finally, just $133 billion of the available surplus would go to tax reduction — all of which is restrictively targeted. Yet if the numbers are examined just over the first five years — the time period of greater certainty than the latter five years — the amount devoted to increased spending grows to $305 billion and the tax cuts become a $3.9-billion tax hike!

New Spending

Despite the fact that total federal spending increased 5.1 percent from 1999 to 2000 (from $1.703 trillion to $1.790 trillion), President Clinton's budget proposes spending increases in virtually every area of the federal government. Of the 17 programmatic federal spending areas — known as "functions" in budget parlance — only two — Agriculture and Veterans Affairs — did not receive proposed increases in their spending levels (or "budget authority"). In the annually appropriated — or "discretionary spending" — accounts, President Clinton proposes increasing budget authority by 6.1 percent, from $586 billion (CBO's estimate of freezing discretionary spending at the FY 2000 level) to $622 billion — this despite the fact that overall discretionary spending increased 5 percent in FY 2000 and 4 percent in 1999 and non-defense spending increased 6 and 7 percent respectively.

Of the particularly egregious winners in the Clinton spending lottery:

- International Affairs (function 150) would increase 14 percent ($2.8 billion from $20 billion to $22.8 billion) from the adjusted 2000 discretionary level. And this does not even include an additional $3.4 billion for embassy security activities funded by advanced appropriations.

- Department of Energy general science programs would receive a 13-percent increase.

- The Environmental Protection Agency (EPA) would receive a 120-percent increase.

- Community and Regional Development (function 450) programs would receive an 8.9-percent increase — from $11.2 billion to $12.2 billion in budget authority.

- The discretionary programs of the Department of Education would increase 37 percent — a $10.7 billion increase to $40.1 billion.

- The Income Security programs (function 600), which includes welfare among its programs, would increase 8.3 percent.

In addition to these current programs, the Clinton Administration is proposing several new and expensive initiatives, including:

- **A new Medicare prescription drug program** [see RPC paper, " The Truth Behind Clinton's Prescription Drug Proposal," 1/27/00]. Last year the Administration claimed that this would result in $118 billion in new spending over 10 years. Later, the number crunchers revised the estimate to $168 billion. Now in this year's budget, they have added to that an undefined catastrophic drug coverage that will cost $35 billion over 10 years. If the past is any indication, expect this estimate to be revised upwards as well. Thus, the program, without filling a single prescription, has almost doubled in price in one year.

- **A new health care initiative** to provide parents of children enrolled in the S-CHIP program with the ability to enroll at the same enhanced federal match rate as is provided to their children. This would dramatically increase both the size and focus of a program intended to cover children.

Less in Debt Reduction

Of course, more spending means that less debt can be retired than would otherwise be the case. The President makes a great claim of retiring the federal government's publicly held debt by 2013 and the economic benefits derived thereof. However, the fact is that this goal would be achieved if the non-Social Security surplus were saved — just as was done last year and is projected to be done this year. This is a goal Republicans have long been committed to, but Clinton in contrast is committed to spending.

In truth, excessive spending, as the Clinton budget advocates, is the very last thing that should be done. This repeatedly has been echoed by Federal Reserve Board chairman Alan Greenspan.

Furthermore, the Clinton budget would leave the publicly held debt at a level significantly above either the CBO or OMB baselines — i.e., where the debt level would be if nothing were done. The public debt level was $3.633 billion in 1999. According to CBO's lowest surplus estimate (assuming that the FY 2000 spending level were inflated over the next decade), the net level of publicly held debt would be $413 billion in 2010. Under OMB's baseline, the public debt level would be $670 billion in 2010. And under Clinton's budget? The publicly held debt would be $1.082 trillion in 2010, according to the President's own estimators.

Finally, what the Clinton budget would do to total government debt (the combined debt held by the public and the debt the government owes to itself — such as Social Security, etc.) is even more incredible. Due to the convoluted chicanery of the Clinton budget's General Fund transfer to Social Security and Medicare, by 2050 the total government debt would soar an additional $36.1 trillion. Sound incredible? Well, here's how it will be done.

Clinton's Social Security and Medicare Budget Gimmick

President Clinton is trumpeting a claim that he would increase the solvency of both the Social Security and Medicare trust funds by transferring the interest savings accruing from not touching the Social Security surplus to the Social Security trust fund (in addition, government investment of some Social Security funds also would occur). Similarly, the President claims to transfer money from the non-Social Security surplus to the Medicare trust fund. Together, this amounts to $350 billion over 10 years. By way of both these transfers, President Clinton claims to increase the solvency of the Social Security trust fund until 2050 and of the Medicare trust fund until 2027.

It would be hard to concoct more disingenuous proposals than these by President Clinton. *These transactions will do no more than increase the trust funds' solvency on paper.* Quite literally, President Clinton is merely "papering over the problems" with IOUs. This gimmick fails on every conceivable level and it plainly hurts both Social Security and Medicare: it will not provide a single cent or extend by a single day the ability of the federal government to pay its commitments to Social Security or Medicare beneficiaries. Further, it dramatically increases the total federal debt — and thereby the burden on future taxpayers. And finally, because these are simple paper transfers, *there is no safeguard to prevent every cent of the claimed transfer from still being spent by the federal government on things other than Social Security or Medicare.*

Let's review this dishonest budgetary scheme:

- It won't help, but will hurt, both Social Security and Medicare.
    - ☞ Both of these trust funds exist only on the accounting books and hold no real assets. Instead, they pay their beneficiaries from payroll taxes paid by current workers — that is, both programs are pay-as-you-go programs and not real trust funds.
    - ☞ The crisis facing both programs is that in the near future the programs will not be able to: first, make payments from their payroll tax receipts; and second, not have any balances left in their accounts (2014 and 2034 for Social Security; and since 1992 and 2015 for Medicare) .
    - ☞ Solving the fundamental mismatch between future liabilities and the future ability to finance these from payroll taxes is the fundamental problem facing both these programs. Clinton's proposal does nothing to address either. In fact, it goes the other way. By giving a false sense of security, it allows the day of reform to be delayed.
- It doesn't provide a single extra cent or a single extra day to the government's ability to pay beneficiaries.
    - ☞ Since the problem is a shortfall in future payroll tax receipts, current transfers — even if they were real money, which they aren't — won't help. Again, the trust funds hold paper balances and not actual cash so there is no "there, there" when the shortfall hits.
    - ☞ It is simply like increasing the credit limit of a "maxed out" credit card — offering a false sense of security to the cardholder but providing no greater ability to pay the bill.
- This is not just a shift of debt, but *a compounding of the shifting of debt* on future generations.

- ☞ The President's phony paper transfers to the trust fund will — on paper — compound and earn interest. Over the course of the trust funds' lives (to 2050 for Social Security and to 2027 for Medicare), the hundreds of billions Clinton claims today will compound with the crediting of "interest" into a $34 trillion figure for Social Security and a $2.1 trillion figure for Medicare.

- ☞ *That's a new $36.1-trillion liability on future generations who already lack the ability to pay the existing liability.* What does this mean? — either a $36.1-trillion tax increase on America's grandchildren (as a comparison, total federal tax receipts were $1.8 trillion last year and comprised 20 percent of the entire economy — the highest level since World War II) or a $36.1-trillion federal debt (compare with the debt held by the public last year: $3.6 trillion).

- And perhaps, most egregious of all, the money being "transferred" still can be spent — every single cent.

  - ☞ The President knows that because no real money changes hands — but only "credits" to the trust funds' books.

No Real Tax Cut Despite Record Surpluses

With so much spending and promising, it's no wonder that there is no money left for a real tax cut. No money for a tax cut — despite the fact that we are entering our third consecutive year of non-Social Security surpluses and should continue to do so for at least the next decade, and that we are running the biggest surpluses in American history.

Clearly, there is no shortage of the means for a tax cut, nor is there a shortage of the need. As the Clinton budget itself points out: total federal taxes comprise the largest share of the U.S. economy since World War II (20.4 percent this year) and of that, income taxes comprise the largest percentage of the U.S. economy in history (9.9 percent).

While the President brashly states that his budget contains a $333 billion tax cut over 10 years, watch how that disappears in reality:

- First, Clinton conveniently forgets that his budget contains 95 different tax hikes amounting to a $181-billion tax hike over 10 years. Thus, the Clinton net tax cut is just $152 billion.

- When the refundable tax credit is included, the net tax cut figure shrinks to $133 billion over 10 years. Recall that refundable means a payment from the Treasury to people who do not have an income tax liability – in short, a payment and not a tax cut at all.
- Then note that over the first five years — that period of time for which budget projections are more certain — Clinton's would-be tax cut shrinks and actually becomes a tax hike. According to the Senate Budget Committee, in the first year it becomes a $10.8-billion

hike, and over the first five years becomes a $3.9-billion hike. According to the House Ways and Means Committee, this tax hike becomes even larger: when the Clinton fees are added in, it becomes a $14.7-billion increase.

What the budget does provide in tax relief is paltry:

- only partial marriage penalty relief that is unfair in that it would not help all married families — $44.8 billion over 10 years. (The bill passed by the House of Representatives yesterday provided $182 billion in relief.);

- insufficient alternative minimum tax (AMT) relief — $38.2 billion over 10 years. (The AMT was meant to insure that people at high income levels pay at least some tax but due to a lack of indexing, more and more middle-income families are entering this category.); and

- while providing $39.2 billion in education-related tax provisions, the budget fails to provide even one cent to help families save for education.

And, the marriage penalty relief would not address the real AMT problem by which millions of middle-class families unintentionally have been and increasingly will be drawn into this complex and confusing tax system.

Among the tax hikes are a thinly disguised tobacco tax ($66 billion over 10 years), $96 billion in so-called "loophole" closures (which have been rejected time and again by both parties in Congress), and $19 billion in reinstating old taxes.

More Spending, More Debt, and Higher Taxes

Despite the thousands of pages issued and the countless promises made by this president, Clinton's last budget boils down very simply to: $1.359 trillion in new spending; $36.1 trillion in new debt to future generations, and a disappearing tax cut (and a net tax hike over the first five years). Since a budget is nothing more than a numerical recitation of priorities, Clinton's budget eloquently testifies to his: Big Government. President Clinton's last budget perfectly encapsulates his presidency. It is long on spending, it makes promises for the others to keep — future generations, future Congresses, and future presidents — and it keeps taxes at record highs. In that regard, it is a fitting legacy for him.

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Editor's Note: This is RPC's final publication by economist JT Young, who today begins his service as deputy staff director for the Senate Finance Committee. Our loss, Finance Committee's gain.